

Memo

To: Shana Davis-Cook, Village Manager
From: Michael Younes, Director of Municipal Operations *MY*
CC: Board of Managers
Demetri Protos, Finance Director
Date: 6/7/2011
Re: Audit Contract Extension

Enclosed please find the draft letter to Lindsey & Associates, LLC exercising the Village's second of three (3) options to provide professional audit services. As stipulated in section 2 of the professional services contract attached hereto and marked "Attachment A" will cost \$11,000 for the FY 2011 audit. Village Legal Counsel has already reviewed and approved the draft extension letter for form and legality.

I have spoken with the Village Finance Director, Demetri Protos, who has received the attached e-mails from two (2) of the three Audit Committee members stating that they are very pleased with the level of service and work in preparing the FY2009 and 2010 audit reports received and would recommend contracting with Lindsey & Associates, LLC for the FY2011 audit.

As always, please do not hesitate to contact me if you have any questions or concerns.

Enclosures

CHEVY CHASE
VILLAGE
ESTABLISHED 1890

Younes, Michael

From: Protos, Demetri
Sent: Monday, June 06, 2011 12:26 PM
To: Younes, Michael
Subject: FW: Audit

From: feldmangs@aol.com [<mailto:feldmangs@aol.com>]
Sent: Monday, June 06, 2011 12:04 PM
To: Protos, Demetri
Cc: feldmangs@aol.com
Subject: Re: Audit

I concur in the extension of the current contract with Lindsey and Associates for another year, to include the audit of our FY2011 financial operations. Their work on the prior two audits has been thorough and professional, and the individuals staffing our audits seem to have been knowledgeable and responsive to Village requirements. The Village also benefits from the firm's considerable auditing experience with municipal governments.

Gail Feldman

-----Original Message-----

From: Protos, Demetri <Demetri.Protos@montgomerycountymd.gov>
To: timothy.j.trifilo@us.pwc.com; feldmangs@aol.com; Samandpol@aol.com
Sent: Thu, Jun 2, 2011 2:00 pm
Subject: Audit

To all,

Could you please provide me in writing that you are all in agreement on extending the current contract with Lindsey and Associates for another year. That you are satisfied with their level of work and service to the Village. This will be forwarded for consideration to the Board so they may approve the contract extension. Please have this to us no later than Tuesday at noon. Thank you.

Demetri

Younes, Michael

From: Protos, Demetri
Sent: Monday, June 06, 2011 11:32 AM
To: Younes, Michael
Subject: FW: Audit contract

-----Original Message-----

From: samandpol@aol.com [<mailto:samandpol@aol.com>]
Sent: Saturday, June 04, 2011 11:34 AM
To: Protos, Demetri
Subject: Audit contract

Level of work and service have been fully satisfactory to my knowledge.

Believe that the extension continued past pricing plus CPI, which also is good. So concur in proposed one year extension.

Sam Lawrence



June 14, 2011

Lindsey & Associates, LLC
Attn: James A. Lindsey, Jr.
606 Baltimore Avenue, Suite 101
Towson, MD 21204

Subject: FY2011 Audit

Dear Mr. Lindsey:

I am pleased to inform you that, by this letter, Chevy Chase Village (the "Village") is exercising its second option to extend for one (1) year the contract by and between the Village and Lindsey & Associates, LLC (the "Contractor"), dated June 30, 2009 (the "Contract") and amended on June 9, 2010. The aforementioned extension shall take effect as of the date of this letter. By exercising the second of three one-year options to which the Village is entitled under Paragraph Four of the Contract, the Contract shall now be in effect for the FY2011 Audit. The amended Contract is attached hereto as Exhibit 1 for your reference.

Compensation under this contract shall be as provided in the original Contract marked as Attachment A.

Please sign all three (3) original letters and return two (2) original letters to the following address at your earliest convenience:

Chevy Chase Village
Attention: Ms. Shana Davis-Cook
5906 Connecticut Avenue
Chevy Chase, Maryland 20815

Kindly contact me at (301) 654-7300 should you have any questions. On behalf of Chevy Chase Village, we look forward to continuing to work with you over the coming year.

Sincerely,

Shana Davis-Cook
Manager, Chevy Chase Village

CHEVY CHASE VILLAGE
5906 Connecticut Avenue
Chevy Chase, Maryland 20815
Phone (301) 654-7300
Fax (301) 907-9721
ccv@montgomerycountymd.gov
www.chevychasevillagemd.gov

SHANA R. DAVIS-COOK
Village Manager
DAVID R. PODOLSKY
Legal Counsel

Acknowledged by: _____
James A. Lindsey, Jr.

Title: Managing Member, Lindsey & Associates, LLC

Date: _____

Attachments

Attachment A

PROFESSIONAL SERVICES CONTRACT

THIS PROFESSIONAL SERVICES CONTRACT (this "Contract"), made this 30th day of June, 2009, by and between the CHEVY CHASE VILLAGE, a municipal corporation organized and existing under the Laws of Maryland, hereinafter referred to as the "Village," and Lindsey & Associates, LLC, hereinafter referred to as the "CONTRACTOR."

WITNESSETH:

WHEREAS, the Village desires to obtain professional independent audit services as more particularly described in specifications identified and attached hereto as Exhibit 1; and

WHEREAS, the Village desires to retain the services of the Contractor to perform said services in accordance with the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the covenants and promises hereinafter set forth, the parties hereto agree as follows:

1. **SCOPE OF SERVICE.** The Contractor agrees to supply services described and be bound by the terms and conditions set forth in the proposal attached hereto and made a part hereof and identified as Exhibit 1 and the engagement letter attached hereto and made a part hereof and identified as Exhibit 2 (collectively the "Scope of Work"), provided, however, that in the event any terms of the Scope of Work conflict with this Contract, the terms and conditions of this Contract shall prevail. Contractor shall perform the services described in this Contract in a timely, diligent, and professional manner in accordance with recognized standards of the applicable industry or profession.

2. **COMPENSATION:** The Contractor shall be paid in accordance with the Scope of Work. Payment shall be made within thirty (30) days of receipt of an invoice, unless a longer period is provided in the Scope of Work.

3. **TIME FOR PERFORMANCE:** The work shall be completed in accordance with the Scope of Work subject to extensions as may be agreed upon in written by the parties.

4. **OPTION TO EXTEND.** Upon written notice to the Contractor prior to the termination of this Contract, this Contract may be extended by mutual written consent of the Village and the Contractor for up to three (3) additional one (1)-year extensions. The Contractor shall be paid in accordance with the compensation for the option period(s) set forth in Exhibit 1.

5. **TIME OF ESSENCE.** The Contractor acknowledges that time is of the essence in providing the services under this Contract.

6. **INVOICES.** Requisitions for payment shall include a complete description of the services rendered by the Contractor, providing the dates services were rendered, and a description of services rendered.

7. **INDEPENDENT CONTRACTOR.** The Contractor shall perform this Contract as an independent contractor and shall not be considered an agent of the Village, nor shall any of the Contractor's employees or agents be subagents of the Village.

8. **EQUAL EMPLOYMENT OPPORTUNITY.** During the performance of this Contract the Contractor agrees that it will comply with all applicable federal, state, and local laws relating to discrimination in employment.

9. **REVIEW BY VILLAGE.** The Contractor agrees that the work and records covered by this Contract will be subject to review, upon reasonable notice to the Contractor, by representatives of the Village, including but not limited to expense records.

10. **DOCUMENTS, ETC.** All audit documentation prepared by the Contractor is property of the Contractor. All documents provided to the Contractor by the Village are the property of the Village.

11. **INDEMNIFICATION.** The Contractor shall indemnify and save harmless the Village, its representatives, agents, and employees, from all suits, actions, liability, damages, expenses (including, but not limited to court costs and attorneys' fees), and demand for personal injury or property damage, and other expenses or losses suffered or arising out of or caused by any negligent act or omission, or failure to perform, of the Contractor, or the Contractor's, employees, servants, agents, or permitted subcontractors. So much of the monies due or to be become due to the Contractor under the Contract shall be retained by the Village in such amount as may be considered necessary by the Village until such suits or claims for damages have been settled or otherwise disposed of and satisfactory evidence to that effect has been furnished to the Village.

12. **TERMINATION FOR CONVENIENCE.** The Village may terminate this Contract for convenience by giving written notice to the Contractor of such termination and specifying the effective date thereof, at least five (5) business days before the effective date of such termination. If the Contract is terminated by the Village as provided in this section, the Contractor will be paid an amount which bears the same ratio to the total compensation as the services actually performed bear to the total services of the Contractor covered by this Contract, less payments of compensation previously made.

13. **TERMINATION FOR CAUSE.** If, through any cause, the Contractor fails to fulfill in a timely and proper manner its obligations under this Contract, or if the Contractor violates any of the covenants, agreements, or stipulations of this Contract, the Village shall thereupon have the right to terminate this Contract by giving written notice to the Contractor of such termination and specifying the effective date thereof, at least five (5) business days before the effective date of such termination. Provided, however, an unfavorable report or opinion issued by the Contractor as a result of the Contractor discharging its responsibilities in accordance with applicable professional standards shall not constitute cause or breach of the Contract. Notwithstanding the above, the Contractor shall not be relieved of liability to the Village for damages sustained by the Village by virtue of any breach of this Contract by the Contractor, and the Village may withhold any payments for the purpose of setoff until such time as the exact amount of damages due the

Village from the Contractor is determined.

14. COMPLIANCE WITH LAWS. The Contractor shall observe and comply with all federal, state, county and local laws, ordinances and regulations that affect the work to be done herein, and shall indemnify and hold harmless the Village, and all of its representatives, agents, and employees against any claim or liability from or based on the violation of any such law, ordinance, or regulation, whether by the Contractor, the Contractor's employees, agents, or permitted subcontractors, and their employees and agents. Notwithstanding the foregoing, in the event that the Contractor determines that a conflict exists between any applicable law, ordinance, and/or regulation, the Contractor will so advise the Village and the Village will decide which law, ordinance, and/or regulation shall be followed. The Contractor will be responsible for obtaining and maintaining any and all required registrations and licenses pertaining to performance of services under this Contract.

15. SUBCONTRACTING. None of the services covered by this Contract shall be subcontracted without the prior written consent of the Village. Any request for consent to subcontract any portion of the work shall include: 1) a description of the items to be subcontracted; 2) all subcontractor names, addresses and telephone numbers; and 3) the qualifications of the subcontractor. If the Village consents to subcontracting, the Contractor shall be fully responsible to the Village for the negligent act, error, or omission, intentional wrongful act, intentional misconduct, or failure to perform of the subcontractors, and of persons either directly or indirectly employed by them, as it is for the negligent and intentional acts and omissions of persons directly employed by the Contractor. There shall be no contractual relationship between the Village and any subcontractor. The Contractor will require all subcontractors to have in effect at all times insurance coverage for negligent acts, errors, and omissions of subcontractors and their employees and the Village shall be named as an insured party.

16. SUCCESSORS AND ASSIGNS. This Contract shall be binding and inure to the benefit of all successors and permitted assigns of the parties hereto. Notwithstanding the foregoing, the Contractor shall not assign or transfer any interest in this Contract without the prior written approval of the Village which may be withheld in the Village's sole and absolute discretion.

17. CONFLICTS OF INTEREST. The Contractor covenants that it has presently no interest and shall not acquire any interest, direct or indirect, which would conflict in any manner or degree with the performance of services required to be performed under this Contract. The Contractor further covenants that, in the performance of this Contract, no person having any such interest shall be employed.

18. CAPACITY TO PERFORM. The Contractor, by executing this Contract, represents that all equipment necessary for providing the described services is in working order, that materials needed are now in stock or will be available so as not to delay timely performance, and that all personnel needed are available or will be available by the date work is to commence.

19. INSURANCE. The Contractor shall carry adequate worker's compensation coverage

for all employees performing work under this Contract. The Contractor shall carry and maintain automobile liability coverage of at least \$500,000 per occurrence and \$500,000 in the aggregate for bodily injury, and \$250,000 per occurrence and \$250,000 in the aggregate for property damage, and shall provide to the Village certificates of insurance evidencing the same. The Contractor shall also provide proof of professional liability insurance in the amount of \$1,000,000 per occurrence and \$2,000,000 in the aggregate and shall provide to the Village certificates of insurance evidencing the same.

20. ACCURATE INFORMATION, ACCOUNTING, AND AUDIT. The Contractor certifies that all information provided in response to the request for proposals or invitation to bid or that will be provided to the Village is true and correct and can be relied upon by the Village in awarding, modifying, accepting services, making payments, or taking any other action with respect to this Contract. Any false or misleading information is a ground for the Village to reject a bid or to terminate this Contract and to pursue any other appropriate remedy. The Contractor certifies that its accounting system conforms with generally accepted accounting principles, is sufficient to comply with the Contract's budgetary and financial obligations, and is sufficient to produce reliable financial information.

21. TERMS AND CONDITIONS. The terms and conditions of this document govern in event of a conflict with any terms of the Contractor's proposal, and are not subject to change by reasons of written or oral statements by the Contractor unless the same are accepted in writing. Words and abbreviations which have well known technical or trade meanings are used in accordance with such meanings.

22. INTERPRETATION. Any questions concerning conditions and specifications shall be directed in writing to the Village Manager or other official designated by the Village. No interpretation shall be considered binding unless provided in writing by the Village Manager or other authorized official of the Village. The execution of this Contract shall be prima facie evidence that the Contractor thoroughly understands the terms of this Contract.

23. AUTHORITY OF THE VILLAGE MANAGER IN DISPUTES. Claims by the Contractor against the Village relating to this Contract shall be resolved in accordance with Section 24-41 of the Village Code. Pending final decision of the dispute, the Contractor shall proceed diligently with performance under this Contract

24. ERRORS. The Contractor shall take no advantage of any error or omission in the specifications. This Contract shall not be construed against either party by virtue of the fact that such party or its agent authored all or any part hereof.

25. NO LIMITATION OF LIABILITY. The mention of any specific duty or liability of the Contractor in any part of this Contract shall not be construed as a limitation or restriction upon any general liability or duty imposed upon the Contractor.

26. GOVERNING LAW. This Contract is executed in the State of Maryland and shall be governed by Maryland law. The Contractor, by execution of this Contract, consents to the jurisdiction of the Maryland state courts with respect to any dispute arising out of this Contract

and further consents to venue in Montgomery County, Maryland.

27. MODIFICATION. This Contract may be modified only by written instrument signed by both parties hereto.

28. NOTICES. Written notice shall be deemed to have been duly served if delivered in person to the individual or member of the firm or to any officer of the corporation for whom it was intended if delivered or sent by registered or certified mail to the last address known. All notices required or permitted under this Contract shall be in writing and shall be deemed delivered when delivered in person or deposited in the United States mail, postage prepaid to the following:

TO VILLAGE: Chevy Chase Village
 Attn: Geoffrey Biddle, Village Manager
 5906 Connecticut Avenue
 Chevy Chase, Maryland 20815

TO CONTRACTOR: Lindsey & Associates, LLC
 Attn: James A. Lindsey, Jr.
 606 Baltimore Ave., Suite 101
 Towson, Maryland 21204

29. ENTIRE CONTRACT. This Contract, including the exhibits attached hereto, constitutes the entire Contract between the Village and the Contractor, and the parties shall not be bound by any prior negotiations, representations or promises, not contained herein.

30. SEVERABILITY: If any provision of this Contract shall be held to be invalid or unenforceable for any reason, the remaining provisions shall continue to be valid and enforceable. If a court finds that any provision of this Contract is invalid or unenforceable, but that by limiting such provision it would become valid and enforceable, then such provision shall be deemed to be written, construed, and enforced as so limited.

31. NO WAIVER OF RIGHT: The failure of either party to enforce any provision of this Contract shall not be construed as a waiver or limitation of that party's right to subsequently enforce and compel strict compliance with every provision of this Contract.

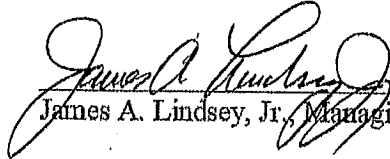
32. ENFORCEMENT. If, after written notice of default to the Contractor and an opportunity to cure the default within ten (10) business days of the date of such notice or such other time period as may be specified in the notice of default, the Contractor is in default of any of its obligations under this Contract, the Village shall be entitled to all expenses, including court costs and reasonable attorneys' fees, incurred in securing the performance of any obligations under this Contract and/or in prosecuting a claim for damages arising from the Contractor's default.

IN WITNESS WHEREOF, the Village and the Contractor have executed this Contract under seal as of the date first written above.

CONTRACTOR:

LINDSEY & ASSOCIATES, LLC

By:

 (SEAL)
James A. Lindsey, Jr., Managing Member

CHEVY CHASE VILLAGE

By:

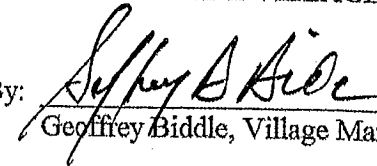
 (SEAL)
Geoffrey Biddle, Village Manager

EXHIBIT 1

**AUDIT PROPOSAL
TO
CHEVY CHASE VILLAGE**

Lindsey & Associates, LLC
Certified Public Accountants
606 Baltimore Ave., Suite 101
Towson, Maryland 21204
Contact Person: James A. Lindsey, Jr.
Tel. No.: (301) 596-1996
(410) 825-1994
Fax No.: (410) 825-1997
E-mail: jlindsey@acpafirm.com

May 28, 2009

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Lindsey + Associates

Lindsey + Associates LLC
Certified Public Accountants

May 28, 2009

Mr. Geoffrey Biddle
Manager
Chevy Chase Village
5906 Connecticut Avenue
Chevy Chase, Maryland 20815

806 Baltimore Avenue
Suite 101
Towson, MD 21204
410.825.1994 phone
301.596.1998 DC phone
410.825.1997 fax
www.acpafirm.com

RE: Auditing Services

Dear Mr. Biddle:

Thank you for the opportunity to submit this audit proposal. This proposal is a firm and irrevocable offer for forty (40) days.

Our Understanding of the Required Services

Lindsey + Associates will for the years ended June 30, 2009 with the Village's option of three 1-year extensions (1) conduct an audit in accordance with auditing standards generally accepted in the United States of America per the AICPA Industry Guide for State and Local Governments and all applicable authoritative guides (2) issue all reports and letters required by the applicable auditing standards, and (3) prepare the Uniform Financial Report.

Lindsey + Associates audit approach is delineated beginning on page 15 of this proposal.

Engagement Timing

Engagement Phase/Segmentation	Start	Finish
Planning meeting with Chevy Chase Village staff	By July 1	By July 1
Interim testing	July 13	July 16
Year-end fieldwork	August 3	August 7
Prepare financial statements, footnotes and reports	August 3	August 7
Delivery of all draft reports and letters	August 14	August 14
Exit conference	August 17	August 17
Delivery of financial statements and all reports and letters	September 7	September 7
Presentation to Village Council	October	October
Review and sign CAFR	NLT October 31	NLT October 31

We are committed to perform the work so that the audit reports and other required reports are submitted to the Maryland Department of Legislative Services on a timely basis and to meet the deadlines enumerated in the Village's Request for Proposals.

Estimated Hours

Staff Level	Estimated Hours
Partner	10
Senior Manager	20
Senior	20
Staff	44
Total	94

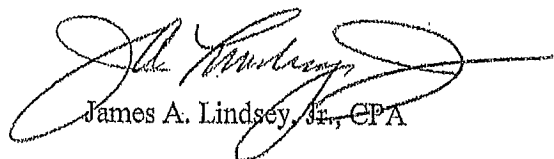
Uniquely Qualified

We are uniquely qualified to provide the services which are described in this proposal because one of Lindsey + Associates' specialties is providing services to federal, state and local governments. Lindsey + Associates have one of the largest state and local governmental audit practices in the State. Our state and local governmental practice includes multi-billion dollar clients such as the Maryland Transit Administration. We have on-point specialized governmental knowledge which, as an example, has allowed us to compile the Comprehensive Annual Financial Report (including all sections but the transmittal letter and MD & A section) for the City of Takoma Park for the last two (2) fiscal years and they have received GFOA's Award of Excellence for Financial Reporting.

Primary Point of Contact

I am the primary point of contact for any and all inquiries by Village personnel. My replacement will be Robert P. Diss, Senior Manager, should I not be available for some reason to work on this engagement. I am the President of Lindsey + Associates and am authorized to make representations for Lindsey + Associates and to bind the firm to a contract. My address is 606 Baltimore Avenue, Towson, Maryland 21204. Please contact me at (410) 825-1994 or jlindsey@acpafirm.com should you have any questions or need additional information.

Very truly yours,



James A. Lindsey, Jr., CPA

INDEPENDENCE

Lindsey + Associates is independent with respect to the Village and the Village's potential component units as defined by the American Institute of CPAs, generally accepted auditing standards and *Government Auditing Standards*. Lindsey + Associates have not provided services to the Village within the last five (5) years.

LICENSE TO PRACTICE IN MARYLAND

Lindsey + Associates and all assigned key personnel are properly licensed to practice public accountancy in Maryland.

MEMBER OF AMERICAN INSTITUTE OF CPAS

Lindsey + Associates is a member of the American Institute of CPAs.

FIRM'S QUALIFICATIONS AND EXPERIENCE

Lindsey + Associates, LLC founded in 1994 is located in Towson, Maryland, and has earned a reputation as one of the Mid-Atlantic region's premier CPA and consulting firms. Its CPAs and consultants provide accounting, auditing, consulting, financial, and tax services to entrepreneurial start-ups, multi-billion dollar businesses, and organizations in between. Its CPAs and consultants have worked with Fortune-500 companies and some of the largest government organizations on the East Coast. Although one of Lindsey + Associates primary audit, accounting and consulting specialties is state and local governments, we have chosen not to be members of the AICPA's Governmental Auditing Quality Center. Lindsey + Associates governmental auditing professionals include 4 CPAs and 4 accountants. Though small we have big firm capabilities. This engagement will be staffed by professionals located in our Towson, Maryland office.

Peer Review

Lindsey + Associates is enrolled in the AICPA peer review program, and is committed to both the peer review program and maintaining a top-notch internal quality review program.

Our most recent external quality control review letter is included as an attachment to this proposal, and shows that we received the highest opinion – an unqualified opinion with no letter of comments. The external quality control review included a review of governmental audit engagements.

Uniquely Qualified

We are uniquely qualified to provide the services which are described in this proposal because one of Lindsey + Associates' specialties is providing services to federal, state and local governments. A *partial list* of recent governmental clients follows on the next page.

PARTIAL LIST OF FEDERAL, STATE AND LOCAL GOVERNMENTAL CLIENTS

Federal Government

United States Corps of Engineers
(Subcontractor to PricewaterhouseCoopers)

State and Regional Governments

Maryland Affordable Housing Trust
Maryland Department of Business and Economic Development
Maryland Department of Mental Health and Hygiene
Maryland Food Center Authority
Maryland National Capital Parks and Planning Commission
Maryland Public Television
Maryland State Lottery
Maryland State Retirement Agency
Maryland Transit Administration
Washington Metropolitan Area Transit Authority

County and Other Governments

Allegany County
City of Glenarden Housing Authority
Howard County Fire and Rescue Department
Howard County Housing Commission
Montgomery County
Wicomico County Housing Authority

Local Governments

City of Annapolis
City of College Park
City of Glenarden
City of Laurel
City of Seat Pleasant
City of Takoma Park
Town of Berwyn Heights
Town of Brentwood
Town of Capitol Heights
Town of Chesapeake Beach
Town of Cottage City
Town of Edmonston
Town of Fairmount Heights
Town of Hampstead
Town of Highland Beach
Town of Landover Hills
Town of Laytonsville
Town of North Brentwood
Town of Riverdale Park
Town of Somerset
Town of Sykesville
Town of University Park
Town of Union Bridge
Town of Washington Grove
Village of Friendship Heights
Village of North Chevy Chase

PARTNER, SUPERVISORY AND STAFF QUALIFICATIONS AND EXPERIENCE

Engagement Team

Jim Lindsey, CPA – Engagement Partner
Bob Diss, CPA – Senior Manager
Bill Wilkerson, CPA – Senior Auditor
Steve Cohen, CPA – Senior Auditor
Nicole Tallon – Staff II Auditor

Engagement Team CPE

All engagement team members have met AICPA, Maryland Board of Public Accountancy and GAO continuing professional educational requirements for the most recent two (2) years.

Resumes of Engagement Team

*James A. Lindsey, Jr., CPA
Engagement Partner*

Jim Lindsey, a Partner, with almost 30 years of experience specializes in providing services to state and local governments. He was formerly a senior manager with Ernst & Young. Besides being a CPA and having passed the CMA exam, he graduated magna cum laude from the University of Maryland and has an MBA from the Wharton School. He is a frequent lecturer and has taught the following governmental courses at either state CPA association meetings or for governmental clients: "Cash Flow Statements for Governmental and Non-Profit Entities," "Accounting for Governmental Entities under GASB" and "Activity Based Cost Accounting for Strategic Decision Making." He, also, spoke on how to implement GASB No. 34 at an MACPA Government Day Conference and spoke on How to Prepare for an Audit at the Maryland Municipal League Fall 2009 conference. In addition, Jim was an adjunct faculty member in the graduate school of The Johns Hopkins University for 10 years. He has also served as an expert witness on many occasions because of his broad base of accounting and financial expertise. He is a member of the American Institute of CPAs and the Maryland Association of CPAs. Also, Jim was the Chair of the Board of a \$50+ million retirement community, and has served on its Finance Committee for 8 years and was Treasurer for 2 years.

A partial list of recent relevant governmental experience includes conducting audits and/or attestation engagements or consulting engagements at the following clients:

Federal Government

United States Corps of Engineers
(Subcontractor to PricewaterhouseCoopers)

State and Regional Governments

Maryland Affordable Housing Trust
Maryland Department of Business and Economic Development
Maryland Department of Mental Health and Hygiene
Maryland Food Center Authority
Maryland National Capital Parks and Planning Commission
Maryland Public Television
Maryland State Lottery
Maryland State Retirement Agency
Maryland Transit Administration
Washington Metropolitan Area Transit Authority

County and Other Governments

Allegany County
City of Glenarden Housing Authority
Howard County Fire and Rescue Department
Howard County Housing Commission
Montgomery County
Wicomico County Housing Authority

Local Governments

City of Annapolis
City of College Park
City of Glenarden
City of Laurel
City of Seat Pleasant
City of Takoma Park
Town of Berwyn Heights
Town of Brentwood
Town of Capitol Heights
Town of Chesapeake Beach
Town of Cottage City
Town of Edmonston
Town of Fairmount Heights
Town of Hampstead
Town of Highland Beach
Town of Landover Hills
Town of Laytonsville
Town of North Brentwood
Town of Riverdale Park
Town of Somerset
Town of Sykesville
Town of University Park
Town of Union Bridge
Town of Washington Grove
Village of Friendship Heights
Village of North Chevy Chase

Jim was awarded by the American Institute of Certified Public Accountants the **Certificate of Educational Achievement in Governmental and Not-For-Profit Accounting and Auditing** for

completing a rigorous and specialized program in various accounting and auditing subjects applicable to the governmental and nonprofit industries. Recent continuing professional education credits include:

Governmental Accounting and Financial Reporting: Issues & Implications
Financial Audits of Governmental Entities
Issues and Implications of Government Auditing Standards
Performing the Single Audit
Yellow Book: Government Audit Standards
Government and Nonprofit Annual Update
Cash Flow Statements for Governmental and Other Nonprofit Entities

Robert P. Diss, CPA
Senior Manager

Bob Diss, a Senior Manager, holds a Bachelor's degree in Math from the University of Maryland. He joined Lindsey + Associates in 2000 and is responsible for our audit practice. He has managed audits of all sizes, ranging from the smallest nonprofits to governmental entities with over two billion dollars in assets. Prior to joining Lindsey + Associates he served as an Arabic linguist in the Air Force and his awards include the Defense Meritorious Service Medal. He was also an internal auditor for several years with a local government contracting firm and managed the accounting functions for a multi-million dollar out-of-state contract and was the on-site manager of a quality control project for the Nuclear Regulatory Commission. A partial list of Bob's clients follows.

State and Regional Governments

Maryland Affordable Housing Trust
Maryland Department of Business and Economic Development
Maryland Food Center Authority
Maryland-National Capital Park and Planning Commission
Maryland Public Television
Maryland State Retirement Agency
Maryland Transit Administration

County and Other Governments

Allegany County
Glenarden Housing Authority
Howard County
Howard County Housing Commission
Montgomery County
Wicomico County Housing Authority

Local Governments

City of Annapolis
City of College Park
City of Glenarden
City of Laurel
City of Seat Pleasant

City of Takoma Park
Cottage City
Town of Berwyn Heights
Town of Brentwood
Town of Capitol Heights
Town of Chesapeake Beach
Town of Edmonston
Town of Fairmount Heights
Town of Hampstead
Town of Highland Beach
Town of Landover Hills
Town of Laytonsville
Town of North Brentwood
Town of Riverdale Park
Town of Somerset
Town of Sykesville
Town of University Park
Town of Union Bridge
Town of Washington Grove
Village of Friendship Heights
Village of North Chevy Chase

William L. Wilkerson, CPA
Senior Auditor

Bill Wilkerson, CPA, has more than 20 years of diverse accounting, tax and financial experience. He has a B. A. in Economics from the University of Maryland and has been a CPA since 1992. Prior to joining Lindsey + Associates in 2007 Bill worked for three major domestic and international corporations. He was an internal auditor for a Fortune 100 corporation for approximately 10 years where he conducted and supervised financial and compliance audits and was responsible for special projects. Immediately prior to joining Lindsey + Associates he was an Accounting Manager for a major defense contractor and was responsible for the treasury operations of an international corporation. Bill has extensive experience in the areas of:

- Managing corporate accounting departments
- Directing internal audit departments
- Financial and compliance auditing
- Internal and external financial reporting
- Evaluating and designing internal control systems
- Developing and implementing accounting systems
- Managing interest rate and foreign currency risks

Bill is responsible for directing Lindsey + Associates' internal audit practices. A partial list of state, county and local audit and accounting clients where has performed services follow:

State and Regional Governments

Maryland Transit Administration
Maryland Affordable Housing Trust

County and Other Governments

Allegany County
City of Glenarden Housing Authority
Montgomery County
Wicomico County Housing Authority

Local Governments

City of Glenarden
City of Takoma Park
Town of Fairmount Heights
Town of Highland Beach
Town of Landover Hills
Town of Laurel
Town of Laytonsville
Town of Washington Grove
Village of North Chevy Chase

*Steve J. Cohen, CPA
Senior Auditor*

Steve Cohen graduated from the University of Maryland Baltimore County in 1980. Steve completed the CPA exam and was also certified as a Certified QuickBooks User in 2007, and became licensed as a CPA in Maryland in 2008. Since joining Lindsey + Associates in 2007, he has been primarily involved with providing accounting, auditing and tax services to state and local governments, non-profit organizations and privately-held businesses. A partial list of state, county and local audit and accounting clients where Steve has performed services follow:

State and Regional Governments

Maryland Affordable Housing Trust
Maryland Transit Administration

County and Other Governments

Allegany County
City of Glenarden Housing Authority
Wicomico County Housing Authority

Local Governments

City of Glenarden
City of Laurel
Town of Berwyn Heights
Town of Cottage City
Town of Fairmount Heights
Town of Hampstead
Town of Highland Beach
Town of Landover Hills
Town of Laytonsville
Town of North Brentwood
Town of Riverdale Park
Town of Somerset
Town of University Park
Village of Friendship Heights

Nicole Tallon
Staff II Auditor

Nicole Tallon graduated with honors from the University of Maryland Baltimore County in 2007 and plans to take the CPA exam this year. Since joining Lindsey + Associates in 2007 she has been primarily involved with providing accounting, auditing and tax services to state and local governments, non-profit organizations and privately-held businesses. A partial list of state, county and local audit and accounting clients where she has performed auditing services follow.

State and Regional Governments

Maryland Affordable Housing Trust
Maryland Transit Administration

County and Other Governments

City of Glenarden Housing Authority
Wicomico County Housing Authority

Local Governments

City of Glenarden
City of Takoma Park
Town of Berwyn Heights
Town of Capitol Heights
Town of Cottage City
Town of Edmonston
Town of Fairmount Heights
Town of Hampstead
Town of Highland Beach
Town of Landover Hills
Town of Laurel
Town of Laytonsville
Town of North Brentwood
Town of Riverdale Park
Town of Somerset
Town of University Park
Town of Union Bridge
Town of Washington Grove
Village of Friendship Heights
Village of North Chevy Chase

Quality

Professional staff is encouraged to complete approximately 40 hours of continuing professional education annually. In addition, their professional development and performance is continually monitored. We endeavor to maintain the same professional staff on engagements to maximize our effectiveness and minimize client interruptions. Lindsey + Associates endeavors to keep the quality of its staff high by:

- Creating an environment that balances personal and professional lives
- Offering a challenging and rewarding career paths to all employees
- Continuing to recruit the best available employees
- Providing competitive salaries and fringe benefit packages
- Encouraging employees to develop the proper balance between work and home
- Requiring accountants and auditors to participate in 40 hours of CPE annually -- even before they become CPAs
- All governmental auditing professionals meet the Yellow Book CPE requirements
- Staff training is supplemented by Lindsey + Associates' library containing the most recent
 - *GASB Comprehensive Implementation Guides*
 - *GASB Codification of Governmental Accounting and Financial Reporting Standards*
 - *AICPA Audit & Accounting Guide for State and Local Governments*
 - *PPC Governmental Disclosure Checklist*
 - *GFOA CAFR Checklist*

Supervision

Daily supervision of this engagement will be provided by Bob Diss, Senior Manager, to ensure that the engagement is being conducted in an efficient and timely basis and that all required quality control standards are met. All engagements are reviewed extensively prior to report issuance to ensure that the firm's quality control procedures and all applicable standards are met. Jim Lindsey, the engagement partner, is responsible for ensuring that the firm's quality control procedures meet AICPA standards. The AICPA has issued seven quality control standards and Lindsey + Associates assure compliance with these quality control statements by utilizing numerous checklists developed by the AICPA and Practitioners Publishing Company.

**SIMILAR ENGAGEMENTS WITH OTHER GOVERNMENT ENTITIES
AND REFERENCES**

Client:	Maryland Transit Administration 6 Saint Paul Street Baltimore, MD 21202
Scope of engagement:	Performed approximately 36 engagements including compliance audits and assistance with new GASB pronouncements.
Date:	1998 to present
Engagement partners:	James Lindsey
Total staff hours:	Varies between 250 and 2,000 annually
Contact info:	Charles Lockridge, Director of Audits 410/767-3744 clockridge@mtamaryland.com
Client:	City of Annapolis 160 Duke of Gloucester Street Annapolis, MD 21401
Scope of engagement:	Financial statement audit (general fund, special revenue funds, capital projects fund, enterprise funds, proprietary funds, fiduciary funds), CAFR review, Single Audit, and GASB-34 implementation.
Date:	1995 to 2004
Engagement partner:	James Lindsey
Total staff hours:	Approximately 400 annually
Contact info:	Tim Elliott, CFO, 410/269-5410
Client:	City of Laurel 8103 Sandy Spring Road Laurel, MD 20707
Scope of engagement:	Financial statement audit, including drafting financial statements and footnotes to financial statements, and Yellow Book audit.
Date:	2006 to present
Engagement partner:	James Lindsey
Total staff hours:	Approximately 250 annually
Contact info:	Michele Saylor, Director of Budget and Personnel Services, 301/725-7951 msaylor@laurel.md.us

**SIMILAR ENGAGEMENTS WITH OTHER GOVERNMENT ENTITIES
AND REFERENCES - continued**

Client: Town of Hampstead
1034 S. Carroll Street
Hampstead, Maryland 21074

Scope of engagement: Performed financial statement audits.
Date: 2002 to present
Engagement partners: James Lindsey
Total staff hours: Approximately 200 hours annually
Contact info: Tammy Palmer, Assistant Town Manager
410/239-7408
tpalmer@carr.org

Client: City of Takoma Park
7500 Maple Avenue
Takoma Park, Maryland 20912

Scope of engagement: Compiled CAFR which received the GFOA Award of Excellence
for Financial Reporting
Date: 2007 to present
Engagement partners: James Lindsey
Total staff hours: Approximately 120 hours annually
Contact info: Yovonda Brooks, CPA, Director of Finance
301/891-7210
Yovondab@takomagov.org

Client: Village of Friendship Heights

Scope of engagement: Performed financial statement audits
Date: 2005 to present
Engagement partners: James Lindsey
Total staff hours: Approximately 60 annually
Contact info: Robert Shapiro
301/656-2797
rshapiro@friendshipheightsmd.go

SCOPE AND SPECIFIC AUDIT APPROACH

Engagement Timing

Engagement Phase/Segmentation	Start	Finish
Planning meeting with Chevy Chase Village staff	By July 1	By July 1
Interim testing	July 13	July 16
Year-end fieldwork	August 3	August 7
Prepare financial statements, footnotes and reports	August 3	August 7
Delivery of all draft reports and letters	August 14	August 14
Exit conference	August 17	August 17
Delivery of financial statements and all reports and letters	September 7	September 7
Presentation to Village Council	October	October
Review and sign CAFR	NLT October 31	NLT October 31

Audit Methodology

A very detailed audit program will be developed for each component of this engagement; however, a detailed summary follows.

Financial Statements

Planning and Preliminary Fieldwork

1. Conduct entrance conference
2. Complete acceptance form for a local government audit
3. Prepare the following correspondence on an as needed basis:
 - Audit engagement letter
 - Request for predecessor auditor to release information to successor auditor
 - Standard form to confirm account balance information with financial institutions
 - Confirmation of authorized signatures
 - Request for cutoff statements
 - Positive and/or negative accounts receivable confirmation
 - Confirmation of accounts payable, loans and other debt
 - Confirmation of any contingent liabilities
 - Confirmation of grant or contract payments and receivables
 - Confirmation of grant entitlements and drawdowns
 - Request for pension plan information
 - Confirmation of insurance coverage
 - Request for legal representation
 - Management representation - standard form
 - Minutes representation letter
 - Related party questionnaire
4. Complete governmental accounting system documentation form
5. Complete the checklist for evaluating potential component units and determine major funds
6. Prepare detailed audit time budget
7. Complete the single audit determination and planning worksheet
8. Complete the single audit, if required, general requirements controls matrix
9. Complete the single audit, if required, specific requirements controls matrix
10. Prepare the planning materiality worksheet

11. Document an understanding of the information system relevant to financial reporting including:

- Relative significance of the account or related transactions to the overall financial statements
- Volume of transactions
- Susceptibility of related assets to theft or similar loss
- Accounts or transaction classes that have traditionally required significant adjustments

12. Describe the extent to which the computer is used (either internally or by a service organization) in significant audit areas

13. List the significant computer applications run on the system, identify the source of the software used, and indicate whether the client has access to the source code included for each software used

14. Complete the governmental internal controls procedures forms including for

- Budgeting
- Cash
- Petty cash
- Investments
- Revenue and receivables - governmental funds
- Service revenue and receivables - proprietary fund types
- Contributions - pension trust funds
- Expenditures for goods and services and accounts payable
- Payroll and related liabilities
- Property, equipment and capital expenditures
- Debt and debt service expenditures
- Single audit, if required, and similar grant programs
- Fiduciary fund types

15. Complete the computer controls questionnaire - general controls, including:

- Organization controls
- Access controls
- Systems and program development controls
- Operational controls
- Disaster recovery/contingency planning

16. Complete the planning worksheet to determine the extent of substantive tests

17. Prepare the sampling and evaluation form for substantive tests
18. Complete the sampling worksheet for testing account coding and classification
19. Complete the inherent risk assessment form
20. Complete the test of controls form
21. Complete the tests of controls sampling form
22. Initiate the confirmation summary form
23. Initiate the governmental accounts receivable statistics form
24. Prepare the following forms for use during the fieldwork:
 - Closing entry and audit adjustment form
 - Audit difference evaluation form
 - Reportable control condition and management point development worksheet
 - Governmental audit supervision, review and approval form

Fieldwork

Analytical Procedures

25. Perform preliminary analytical procedure by comparing account balance for the current period to similar amounts in the prior period

Trial Balance

26. For trial balance and other schedule prepared by Village personnel, perform the following:
 - Trace amounts to the general ledger
 - Foot and crossfoot totals
 - Trace opening balance to the closing balances in the prior period

Budget

27. Review the minutes of the meeting of the Board adopting the budget and those adopting amendments, if any, and compare adopted budget to the budget figures supplied by Village personnel, and reconcile any differences

Commitments and Contingencies

- 28. Perform a search for commitments and contingencies
- 29. Review the Village's files concerning litigation, including invoices from lawyers
- 30. Request the Village's attorney to report, as of the balance sheet date and a cutoff date near the end of the audit
- 31. Inquire of responsible officials concerning the existence and amount of contingent liabilities
- 32. Review cash disbursements for unusual transactions and nonstandard entries

Subsequent Events

- 33. Perform a review for subsequent events from the date of the balance sheet to the date of the auditors' report
- 34. Inquire of responsible officials about the existence of material subsequent events or transactions

- 35. Scan cash receipts and cash disbursements for unusual transactions and nonstandard entries

Related Party Transactions

- 36. At the start of the engagement, update the understanding of the identity of related parties
- 37. Provide all audit staff with the names of known related parties
- 38. Inquire of management about the existence of related party transactions
- 39. Consider obtaining a related party questionnaire from appropriate members of management and the Council

Minutes, Contracts, Ordinances and Laws

- 40. Review the minutes of the Board and any committees, and abstract information relevant to the audit.
- 41. Obtain a written representation on minutes
- 42. Obtain and review copies of new agreements and new amendments to existing agreements

43. Review the Village's charter to determine duties, powers, and other data relevant to the audit
44. Review general state statutes to the extent considered necessary
45. If any legal requirements relevant to the audit are unclear, request a written representation from legal counsel
46. Summarize in the workpapers information identified for disclosure in the notes to the financial statements

Cash

47. Develop and execute the appropriate audit steps to achieve the following audit objectives:

Cash in the combined balance sheet in on hand, in transit, or on deposit with third parties in the name of the Village

All cash is included in the combined balance sheet

Depositories are legally acceptable; adequate collateral has been pledged at depositories for the Village; and separate depository accounts are maintained for each fund for which required

Cash balances reflect a proper cutoff of receipts and disbursement and are stated at the correct amount

Cash balance are presented properly by fund type, restricted cash is presented separately by fund type, and related disclosure are adequate

Investments

48. Develop and execute the appropriate audit steps to achieve the following audit objectives:

Investment balances by fund type are evidenced by securities or other appropriate legal documentation either physically on hand or held in safekeeping by others and include all investments

Investments are of the types authorized by law, contract, and the investment policy of the Village and the State of Maryland

Investment values, income, gains, or losses are state correctly and allocated properly to funds

Investments are properly described and classified by fund type in the combined balance sheet, and related disclosures, including restrictions and commitments, are adequate

Revenue, Receivables, Including Due From Other Units of Government and Due From/To Other Funds and Deferred Revenue, and Receipts

49. Develop and execute the appropriate audit steps to achieve the following audit objectives

Only revenues that are available and measurable in this fiscal period have been recorded, and amounts uncollected at the end of the period presented as receivable are valid

All revenues that are available and measurable in this fiscal period have been recorded

The Village has satisfied the relevant legal requirement to receive all revenues recorded

Revenues have been billed or charged and recorded at the correct amount, and receivables are state at the net realizable amount

Revenues and receivables are properly classified by fund type in the financial statement, and related disclosure are adequate

Expenditure For Goods and Services and Accounts Payable, Including Accrued Liabilities

50. Develop and execute the appropriate audit steps to achieve the following audit objectives:

Recorded expenditures and cash disbursements are for goods or services authorized and received

Expenditures incurred for goods or services and related accounts payable have been identified

Expenditures for goods or services are authorized and in accordance with the budget and other regulations or requirements

Expenditures for goods or services and related disbursement and liabilities have been recorded correctly as to account, fund, budget category, period and amount

Expenditures for goods or services and related liabilities are properly presented by fund type and budget category and related disclosures are adequate

Payroll and Related Liabilities, Including Compensated Absences

51. Inquire about regulations pertinent to wages, salaries, and benefits and read relevant civil service regulations, local, state, and federal ordinances, and other regulations
52. Compare payroll expenditures to the prior period actual and current budget (by department or function and in total)
53. Reconcile payroll record totals to comparable total on Forms 941 filed
54. Compare accruals for compensated absences to the prior periods actual and current budget, and compare the relation of amounts to gross pay with same ratio for the prior period
55. Compare pension expenditures to the number of covered employees, and compare to the same relationship in the prior period
56. Identify bonuses or other unusual compensation, and inspect evidence for approval
57. Consider the reasonableness of the accrual for payroll expenditures at the end of the period
58. Conduct test for padded payroll (fictitious employees)
59. For selected payroll journals, foot and compare total net payroll with the deposit to the payroll bank account and the general fund disbursing check/transfer
60. Select a sample of payroll transactions during the year, and perform the procedures on page AP-104 of the firm's audit procedures
61. See page AP-104 and AP-105 of the firm's audit procedures for tests regarding salaries or fringe benefits that are made on behalf of the Village by another entity, and for proprietary fund types
62. If Village provides benefits to employee after retirement, determine if an accrual for post retirement benefits is needed

Inventories

63. Inquire about Village's policies and procedures with respect to the following matters:
 - Individual funds that have recorded inventory
 - Date and procedures to be used for the physical inventory of each fund that records inventory
 - The accounting method used to record inventory for each fund

64. At the date of the count(s), obtain a copy of the physical inventory summary and perform selected audit steps, such as

Compare the dollar amount of inventory by fund to prior periods, and consider reasonableness in relation to knowledge of acquisitions and activity during the period

In light of this comparison, investigate significant fluctuations

65. Ascertain whether inventory amounts in the financial statements are properly classified by fund type and whether reservation of the fund balance has been made

Property, Equipment, and Capital Expenditures, Including Fixed Assets In Use and Facilities Under Construction

66. Develop and execute the appropriate audit steps to achieve the following objectives:

Property and equipment in the general fixed assets account group and proprietary funds represent a complete and valid listing of the capitalizable cost of assets purchased, constructed, or leased and physically on hand

Capital expenditures represent a complete and valid listing of the capitalizable cost by acquiring fund of the property and equipment acquired during the period, and capitalizable costs are excluded from repair and maintenance and similar expenditure accounts

Capitalized costs and, if applicable, related depreciation associated with all sold, abandoned, damage, or obsolete fixed assets have been removed from the accounts

Depreciation charged on fixed assets of proprietary funds and, if applicable, of grant programs has been computed on an acceptable basis consistent with that used in prior periods, and related allowance accounts are reasonable, considering expected useful lives and salvage value

Capital expenditures and fixed assets are properly classified by fund type or account group in the financial statement, and related disclosures are adequate

Debt and Debt Service Requirements

67. Inquire about provisions of the charter, ordinances, or statutes related to authority to borrow, and perform the following:

Obtain, or prepare, an analysis of debt activity during the year

Review legislative minutes for authorization to issue debt and, if applicable, records of voter referendums approving issuance

Confirm legal compliance of debt sales with bond counsel or the appropriate authorities

Trace debt authorized to accounting records, and consider the appropriateness of classification

68. Compare debt terms and balances as of the balance sheet date to amounts confirmed on standard financial institutions' confirmation or similar confirmations
69. Review loan documents, and draft disclosure points for pledged assets and restrictions, if any
70. Determine if Village is in compliance with restrictive covenants
71. Examine lease agreements, and determine if any leases should be capitalized
72. Review debt service schedule and scan expenditures for proper amounts and recording, and perform the following:

Consider the reasonableness of interest cost

Consider the need to inspect supporting documentation

73. Summarize in the workpapers information about terms, restrictions, guarantees, or commitments related to debt for disclosure in the notes to the financial statements

Fund Equities, Including Investment In Fixed Assets, Retained Earnings, Fund Balances - Reserved, Fund Balances - Designated, and Unreserved and Undesignated Fund Balances

74. Obtain, or prepare, an analysis of changes in the aggregate fund balance and components of the fund balance for each individual fund
75. Read minutes to identify authorization for reservations or designation of fund balances
76. Consider the need for reservation of fund balances for items such as encumbrances, inventories, and long-term assets
77. Vouch the charges or credits changing the aggregate fund balance to supporting documentation

Grant and Similar Programs

78. Obtain, or prepare, a schedule of grants and similar programs and perform the following

procedures:

Review the minutes to identify grants received and related restrictions

Review grant contracts and related laws and regulations

Discuss procedures used to monitor grants

79. Identify financial reports require under grants, and perform the following procedures

Review the status of prior grant audit reports to identify the nature and disposition of prior deficiencies

Reconcile grant financial reports to accounting records

80. For grant revenues and receipts, perform the following procedures:

Compare amounts to the prior period actual and current budget

Confirm direct advances and draws

Review selected grant receipts for proper classification and compliance with contracts and regulations

81. Select a sample of expenditures charge to grant programs, and review for proper classification and compliance with contracts, laws, and regulations

82. Examine documentation and approvals supporting allocation of indirect costs

83. Draft the portion of the management representation letter concerning financial and compliance aspects of grants

84. Summarize in the workpaper information related to grant programs for disclosure in the notes to the financial statements.

Fiduciary Fund Types, if any

85. Develop and execute the appropriate audit steps to achieve the following audit objectives:

Investment balances by fund type are evidenced by securities or other appropriate legal documentation either physically on hand or held in safekeeping by others and include all investments

Investments are of the types authorized by law, contract, and the investment policy of the Village and the State of Maryland

Investment values, income, gains, or losses are state correctly and allocated properly

Investments are properly described and classified in the combined balance sheet, and related disclosures, including restrictions and commitments, are adequate

Ending Fieldwork

86. Summarize and evaluate misstatements noted during the audit
87. Draft the financial statement and discuss significant accounting policies, accounting estimates, and the implications of audit adjustments with management
88. Draft the auditors' report on the financial statements after considering any GAAP departures, scope limitations, uncertainties, and other relevant matters
89. Summarize reportable conditions in internal control structure and all identified instances of noncompliance with applicable laws and regulations for communication to the appropriate officials
90. Draft other reports that are required for the engagement
91. If the Village has an audit committee or a group or individual formally designated with oversight of financial reporting, consider whether communication of the following matters has been appropriately made and documented:
 - Auditor responsibility
 - Accounting policies
 - Estimates
 - Adjustments
 - Other relevant matter
 - Disagreements, if any
 - Difficulties
92. Complete the governmental disclosure checklist

Single audit, if required.

1. Conduct entrance conference
2. Perform preliminary planning
3. Obtain the following information regarding federal award program:

Title/description
District source revenue code
Federal grant number
All correspondence regarding grants
Grant amount authorized
Accrued/deferred grant revenue at beginning of year
Cash received
Revenue earned
Expenditures
Accrued/deferred grant revenue at end of year

4. Finalize audit program

5. Complete the following work programs and/or worksheets:

Audits of federal award programs - general procedures

Audits of federal award programs - developing tests of compliance programs not included in OMB Circular A-133 compliance supplement

Audits of federal award programs - compliance requirements

Planning form

Computer system

Single audit and major program determination worksheet

Low-risk federal program determination worksheet

High-risk federal program determination worksheet

Planning materiality for audits of federal award programs

Internal control system - federal award programs

Combined inherent and control risk assessment worksheet

Tests of controls

Audit finding development worksheet

Subrecipient and vendor determination form

Compliance test worksheet

6. Audit schedule of federal financial assistance
7. Prepare schedule of findings and questioned costs
8. Determine status of prior years' audit findings and questioned costs
9. Prepare preliminary report, including form SF-SAC entitled "Data Collection Form for Reporting on AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS"
10. Finalize workpaper review
11. Deliver preliminary report
12. Conduct exit conference
13. Finalize and deliver report
14. Ensure that reports are mailed and/or delivered to appropriate entities, including Single Audit Clearinghouse, 1201 East 10th Street, Jeffersonville, In 47132

Proposed Segmentation of Engagement

The proposed segmentation of the engagement is delineated in the audit approaches; however, the basic segments are:

Planning, including gaining understanding of entity

Interim testing, including preliminary analytical review

Substantive testing, using sampling and analytical review

Review draft of financial statements, footnotes and prepare all reports and letters

Perform final audit steps, including final analytical review

Obtain legal letter(s) and management representation letter

Date and sign audit reports

Perform review of Uniform Final Report

Level of Staff and Number of Hours to Be Assigned To Each

Staff Level	Total Hours	Planning	Interim Testing	Substantive Testing, Final Audit Steps and Obtain Legal Letter and Mgt Rep Letter	Review draft of financial statements, footnotes and prepare all reports and letters	Review UFR	Review and Quality Control
Partner	10	2	-	-	4	-	4
Senior Manager	20	4	-	4	8	-	4
Senior	20	1	8	8	2	1	-
Staff	44	1	8	30	1	4	-
Total	94	8	16	42	15	5	8

Sample Size and the Extent to Which Statistical Sampling Is to Be Used in the Engagement

Our firm uses statistical sampling whenever it is cost effective and efficient.

The authoritative pronouncement that establish requirements or provide suggestions that most directly affect use of audit sampling are: SAS No. 39, *Audit Sampling*, and the AICPA Audit and Accounting Guide, *Audit Sampling*.

Our firm will most likely use audit sampling in the following areas:

- Substantive tests of details of balance sheet account balances
- Substantive tests of details of transactions
- Tests of controls
- Test of compliance with laws and regulations

Our approach to planning the extent of substantive tests follows:

Assess the appropriate level of tolerable misstatement - tolerable misstatement (as a rule of thumb is 75% of planning materiality)

Determine an amount for individually significant dollar items - any amount less than tolerable misstatement may be used (as a rule of thumb, one-third of tolerable misstatement is often used)

Identify unusual items - these items are tested 100%

Calculate remaining balance and percent of coverage after selecting individually significant items

Determine what procedures, if any, are needed to test the remaining balance

Our firm normally uses one of the three following approaches to selecting samples: random selection, systematic selection, and haphazard selection.

There is a basic relationship between degree of risk and sample size. As the allowable risk of incorrect acceptance decreases, the necessary sample size increases. Statistical sampling allows us to decide on a specific percentage of allowable risk of incorrect acceptance, such as 5% and, through use of a formula or a table to determine sample size, hold the risk to that level or measure the risk level actually achieved by the sample results.

After the sample size is determined and the tests are performed on the sample, we then project the misstatement to the total population using either the ratio method or difference method.

For tests of controls using audit sampling, the population is usually all transactions of a particular type. Tests of controls using audit sampling are usually tests of details of transactions. To be efficient, our firm only focuses on those policies and procedures that are important to achievement of control objectives. We do not test all the policies and procedures involved in processing of transactions, but only those that will have a significant bearing on substantive procedures.

For purposes of determining sample size, our firm considers: tolerable risk, the risk of assessing control risk too low, and the expected rate of deviations from prescribed internal control structure policies and procedures.

Our firm combines compliance tests of laws and regulations with substantive tests of transactions or tests of controls. In other words, we perform a triple-purpose test of transactions, if possible. For example:

Recording the correct amount, account and period

Indications of performance of internal control structure policies and procedures, and

Indications of compliance with relevant laws and regulations

Type and Extent of Analytical Procedures to be Used in the Engagement

Analytical procedures are used in general planning to improve our understanding of

operations and to identify audit areas for increased attention. SAS No. 56 requires the use of analytical procedures in the planning and overall review stages of all audits.

Typical analytical procedures are: comparisons of account balances between accounting periods, comparison of budget to actual, Benford analyses, and ratio and trend analysis. Analytical procedures are also more effective and efficient than tests of details for achieving particular substantive testing objectives. The appropriate mixture of analytical procedures and tests of details is a matter of professional judgment.

Analytical procedures are used most often in the following:

- Engagement planning
- Engagement review
- Account balance review
- Debt and debt service requirements
- Governmental fund revenues
- Inventories
- Payroll
- Proprietary fund revenues

Approach to Be Taken to Gain and Document an Understanding of the City's Internal Control Structure

Our firm's approach to gaining an understanding of the City's internal controls and documenting the internal control structure follows:

1. Document an understanding of the information system relevant to financial reporting including:
 - Relative significance of the account or related transactions to the overall financial statements
 - Volume of transactions
 - Susceptibility of related assets to theft or similar loss
 - Accounts or transaction classes that have traditionally required significant adjustments
2. Describe the extent to which the computer is used (either internally or by a service organization) in significant audit areas
3. List the significant computer applications run on the system, identify the source of the software used, and indicate whether the client has access to the source code included for each software used
4. Complete the governmental internal controls procedures forms for governmental funds, proprietary funds, fiduciary funds, and two account groups: general fixed assets and long-term obligations.

- Budgeting
- Cash
- Petty cash
- Investments
- Revenue and receivables - governmental funds
- Service revenue and receivables - proprietary fund types
- Contributions - pension trust funds
- Expenditures for goods and services and accounts payable
- Payroll and related liabilities
- Property, equipment and capital expenditures
- Debt and debt service expenditures
- Self insurance
- Single audit and similar grant programs

5. Complete the computer controls questionnaire - general controls, including:

- Organization controls
- Access controls
- Systems and program development controls
- Operational controls
- Disaster recovery/contingency planning

6. Complete the sampling worksheet for testing account coding and classification
7. Complete the inherent risk assessment form
8. Complete the test of controls form
9. Complete the tests of controls sampling form

**Approach to Be Taken in Determining Laws and
Regulations That Shall Be Subject to Audit Test Work**

1. Review all
 - Material agreements and contracts
 - Loan documents
 - Grant files
2. Review prior auditors workpapers

3. Discuss laws and regulations with City's attorneys

Approach to Be Taken in Drawing Audit Samples for Purposes of Tests of Compliance

OMB Circular A-133 requires, for certain of its suggested audit procedures, that the auditor "select a sample." However, minimum sample sizes and acceptable selection methods are not specified. Circular A-133 permits these matters to be determined based on the auditor's professional judgment. In many instances because of other procedures performed, low inherent and control risk, and/or small population sizes, sampling may not be necessary.

Our firm uses a standard form (GCX-17 *Planning Worksheet to Determine Extent of Substantive Tests*). As a rule of thumb, sampling may not be efficient when the population is less than 100. In these instances, reviewing individually significant and unusual items, if any, and the internal control system often will be sufficient. GCX-17 follows on the next several pages.

SOP 98-3, *Audits of States, Local Government, and Not-for-Profit Organizations Receiving Federal Awards*, indicates that it is not necessary to select separate sample sizes for each major program. The President's Council on Integrity and Efficiency Standards Subcommittee (though not authoritative) indicates that a sample size of 25 for testing compliance with laws and regulations is the minimum which federal agencies would consider acceptable.

Once the sample size is determined, the auditor normally uses random selection process for choosing the items audited.

ADDITIONAL DATA

Refer to Appendix C for recent articles authored by James Lindsey and published in the *Maryland Municipal* magazine.

COMPENSATION

The all-inclusive maximum fee for the audits follow.

Estimated Hours and Costs For the Year Ending June 30, 2009

Staff Level	Estimated Hours	Hourly Rate	Extension
Partner	10	\$225	\$2,250
Senior Manager	20	130	2,600
Senior	20	93	1,860
Staff	44	75	3,300
Total	94		\$10,010

Fees

For the Year Ending June 30	Fees
2009	\$10,010
2010, if extended	10,500
2011, if extended	11,000
2012, if extended	11,500

The hourly rates for each staff classification in the event unusual findings or situations required additional time in order to complete the audit.

Staff Level	Hourly Rates
Partner	\$225
Senior Manager	130
Manager	105
Senior	93
Staff	75
Bookkeeper	60

APPENDIX A

Attachment D

AFFIDAVIT OF NON-COLLUSION

I hereby affirm that:

I am the President (Title) and duly authorized representative of Lindsey & Associates, whose address is 606 Baltimore Avenue, and that I possess the legal authority to make this affidavit on behalf of myself and the corporation for which I am acting. I further affirm:

1. I am fully informed respecting the preparation and contents of the attached bid submitted in response to the Chevy Chase Village Request for Proposals for Independent Audit Services, and of all pertinent circumstances respecting such bid;

2. Such bid is genuine and is not a collusive or sham bid;

3. Neither the said bidder nor any of its officers, partners, owners, agents, representatives, employees or parties in interest, including this affiant, has in any way colluded, conspired, connived or agreed, directly or indirectly with any other bidder, firm or person to submit a collusive or sham bid in connection with the Contract for which the attached bid has been submitted or to refrain from bidding in connection with such Contract, or has in any manner, directly or indirectly, sought by agreement or collusion or communication or conference with any other bidder, firm or person to fix the price or prices in the attached bid or of any other bidder, or to fix any overhead, profit or cost element of the bid price or the bid price of any other bidder, or to secure through any collusion, conspiracy, connivance or unlawful agreement any advantage against Chevy Chase Village or any person interested in the proposed Contract; and

4. The price or prices quoted in the attached bid are fair and proper and are not tainted by any collusion, conspiracy, connivance or unlawful agreement on the part of the bidder or any of its agents, representatives, owners, employees, or parties in interest, including this affiant.

I do solemnly declare and affirm under the penalties of perjury that the contents of this affidavit are true and correct.

Name of Company: Lindsey & Associates

Signature and Title James A. Lindsey President

Printed Name James A. Lindsey Date May 28, 2009

Attachment E

AFFIDAVIT OF NON-CONVICTION

I hereby affirm that:

I am the President (Title) and duly authorized representative of Lindsey & Associates, whose address is 606 Baltimore Avenue
Towson, MD 21204; and that I possess the legal authority to make this affidavit on behalf of myself and the company for which I am acting. I further affirm:

1. Except as described in paragraph 2 below, neither I nor the above corporation, nor to the best of my knowledge, any of its controlling stockholders, officers, directors, or partners, performing contracts with any public body (the State of Maryland or any unit thereof, or any local governmental entity in the State of Maryland, including any bi-county or multi-county entity) has:

A. been convicted under the laws of the State of Maryland, any other state, or the United States of any of the following:

- (1) bribery, attempted bribery, or conspiracy to bribe.
- (2) a criminal offense incident to obtaining, attempting to obtain, or performing a public or private contract.
- (3) fraud, embezzlement, theft, forgery, falsification or destruction of records, or receiving stolen property.
- (4) a criminal violation of an anti-trust statute.
- (5) a violation of the Racketeer Influenced and Corrupt Organization Act, or the Mail Fraud Act, for acts in connection with the submission of bids or proposals for a public or private contract.
- (6) a violation of Section 14-308 of the State Finance and Procurement Article of the Annotated Code of Maryland.
- (7) conspiracy to commit any of the foregoing.

B. pled nolo contendere to, or received probation before verdict for, a charge of any offense set forth in subsection A of this paragraph.

C. been found civilly liable under an anti-trust statute of the State of Maryland, another state or the United States for acts or omissions in connection with the submission of bids or proposals for a public or private contract.

D. during the course of an official investigation or other proceeding, admitted, in writing or under oath, an act or omission that would constitute grounds for conviction or liability under any law or statute described in subsection A or C of this paragraph.

2. [State "none" or, as appropriate, list any conviction, plea or admission described in paragraph 2 above, with the date, court, official or administrative body, the individuals involved and their

position with the company, and the sentence or disposition, if any.]

None

3. I further affirm that neither I nor the above corporation shall knowingly enter into a contract with Chevy Chase Village under which a person or business debarred or suspended from contracting with a public body under Title 16 of the State Finance and Procurement Article of the Annotated Code of Maryland, will provide, directly or indirectly, supplies, services, architectural services, construction related services, leases of real property or construction.

I acknowledge that this affidavit is to be furnished to Chevy Chase Village and, where appropriate, to the State Board of Public Works and to the Attorney General. I acknowledge that I am executing this Affidavit in compliance with the provisions of Title 16 of the State Finance and Procurement Article of the Annotated Code of Maryland which provides that persons who have engaged in certain prohibited activity may be disqualified, either by operation of law or after a hearing, from entering into contracts with Chevy Chase Village. I further acknowledge that if the representations set forth in this Affidavit are not true and correct, Chevy Chase Village may terminate any contract awarded, and take any other appropriate action.

I do solemnly declare and affirm under the penalties of perjury that the contents of this affidavit are true and correct.

Name of Company: Lindsey & Associates

Signature and Title James A. Lindsey President

Printed Name James A. Lindsey Date May 28, 2009

Federal Employer Identification Number (FEIN): 52-1903650

State of Maryland Employer Identification Number: 08465939

STATE OF MARYLAND
Department of Assessments and Taxation

I, PAUL B. ANDERSON OF THE STATE DEPARTMENT OF ASSESSMENTS AND TAXATION OF THE STATE OF MARYLAND, DO HEREBY CERTIFY THAT THE DEPARTMENT, BY LAWS OF THE STATE, IS THE CUSTODIAN OF THE RECORDS OF THIS STATE RELATING TO LIMITED LIABILITY COMPANIES, OR THE RIGHTS OF LIMITED LIABILITY COMPANIES TO TRANSACT BUSINESS IN THIS STATE, AND THAT I AM THE PROPER OFFICER TO EXECUTE THIS CERTIFICATE.

I FURTHER CERTIFY THAT LINDSEY & ASSOCIATES, LLC IS A LIMITED LIABILITY COMPANY EXISTING UNDER AND BY VIRTUE OF THE LAWS OF THE STATE OF MARYLAND, AND THAT THE LIMITED LIABILITY COMPANY IS AT THE TIME OF THIS CERTIFICATE IN GOOD STANDING TO TRANSACT BUSINESS.

IN WITNESS WHEREOF, I HAVE HEREUNTO SUBSCRIBED MY SIGNATURE AND AFFIXED THE SEAL OF THE STATE DEPARTMENT OF ASSESSMENTS AND TAXATION OF MARYLAND AT BALTIMORE ON THIS MAY 26, 2009.



Paul B. Anderson
Charter Division



301 West Preston Street, Baltimore, Maryland 21201
Telephone Balto. Metro (410) 767-1340 / Outside Balto. Metro (888) 246-5941
MRS (Maryland Relay Service) (800) 735-2258 TT/Voice
Fax (410) 333-7097

orblnk

R5789810

APPENDIX B

BERG, SCHULTZ AND GREEN

Certified Public Accountants

DONALD W. DOWNING, CPA
BRUCE V. DENNIS, CPA
JEFFREY S. GITTIER, CPA
FRANK A. BERG, CPA (1994-1978)
CHARLES J. GREEN, CPA (RETIRED)
SYDNEY SCHULTZ, CPA (RETIRED)

1514 HANOVER AVENUE
ALLENTOWN, PENNSYLVANIA 18100-2000
TEL (610) 488-5145
FAX (610) 488-8025

July 12, 2006

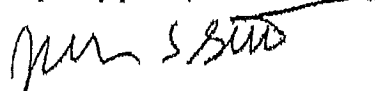
Lindsey & Associates, LLC
606 Baltimore Ave Ste 101
Towson, MD 21204

Dear Jim,

Please find enclosed a copy of your 2006 on-site peer review report. As you can see the report on your review is unmodified without a letter of comments. You can be very proud of the effort that you have made in maintaining a quality firm.

I look forward to working with you again in the future.

Very truly yours,


Jeffrey S. Gittier, CPA

cc: MACPA



The CPA. Never Underestimate The Value.®



Peer Review Program
American Institute of Certified Public Accountants
Administered by the
Maryland Association of CPAs

January 31, 2007

James A. Lindsey, CPA
Lindsey and Associates, LLC
606 Baltimore Ave Ste 101
Towson, MD 21204-4098

Dear Mr. Lindsey:

It is my pleasure to notify you that on January 30, 2007 the Maryland Peer Review Committee accepted the report on the most recent peer review of your firm. The exit conference on your firm's next review should occur by May 31, 2009. The due date for your next review is May 31, 2009. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the reviewer's opinion was unmodified. The Committee asked me to convey its congratulations to the firm.

Sincerely,

Harvey I. Milhiser, CPA
Chairman, Maryland Peer Review
Committee

cc: Jeffrey Scott Gittler, CPA

Firm Number: 10134307

Review Number: 236956

BERG, SCHULTZ AND GREEN

Certified Public Accountants

DONALD W. DOWNING, CPA
BRUCE V. DENNIS, CPA
JEFFREY S. GITTNER, CPA
FRANK A. BERG, CPA (1904-1972)
CHARLES J. GREEN, CPA (RETIRED)
SYDNEY SCHULTZ, CPA (RETIRED)

MEMBER
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
PENNSYLVANIA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

1514 HANOVER AVENUE
ALLENTOWN, PENNSYLVANIA 18109-2888
TEL (610) 488-5148
FAX (610) 488-5022

July 12, 2006

To The Member
Lindsey & Associates, LLC

We have reviewed the system of quality control for the accounting and auditing practice of Lindsey & Associates, LLC (the firm) in effect for the year ended November 30, 2005. A system of quality control encompasses the firm's organizational structure, the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of CPAs (AICPA). The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During our review, we read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagements selected included among other engagements performed under Government Auditing Standards. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with the firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.



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In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Our review was based on selected tests therefore it would not necessarily detect all weaknesses in the system of quality control system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate..

In our opinion, the system of quality control for the accounting and auditing practice of Lindsey & Associates, LLC in effect for the year ended November 30, 2006 has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provided the firm with reasonable assurance of conforming with professional standards.

Berg Schults & Green

APPENDIX C

Municipal Maryland

THE OFFICIAL PUBLICATION of THE MARYLAND MUNICIPAL LEAGUE

APRIL 2007





HELPING YOUR AUDITORS

By James A. Lindsey, Jr., *Managing Partner*

For more than a decade, the accountants at Lindsey + Associates have annually been conducting between ten and twenty municipal audits for large and small organizations throughout Maryland. From that experience base, we have learned that by following five straightforward guidelines your organization can decrease the cost and increase the efficiency of your audit. Here they are:

[1] PREPARE IN ADVANCE

Since I have been involved in scouting for most of my life, and both my sons earned the rank of Eagle, it goes without saying that I'm a big believer in the motto: "Be Prepared." From the outside auditor's perspective that means the time spent by your staff throughout the year keeping up with regular recurrent transactions and doing timely bank reconciliations will pay dividends.

After we arrive and set up a work center, one of the first questions we ask our clients is, "What has happened since the last audit that we should know about?"

A good way to help answer that question and minimize surprises is to create an "Of Interest to Auditors" file and make it an unwritten rule to put anything that will facilitate your audit in that file. Examples could include, but not be limited to: copies of new debt contracts, including facility and equipment leases; minutes of meetings; grant agreements; paperwork related to major purchases; all insurance policies in force during the audit year; payroll/941 records; the original and final budget, and anything else you deem appropriate.

[2] TIME IS MONEY — SAVE IT

Because the audit is an annual event, the date or time period is set in advance. Anything that can

make the process run smoothly from year-to-year is worth doing.

Knowing when your auditors will arrive allows you to prepare before they ring the doorbell. For starters, make sure that ALL relevant filing is current and that an electronic copy of the general ledger and trial balance are ready. Also have the June 30 investment and bank statements and reconciliations handy.

Planning is paramount. Make sure to schedule and allow for the necessary time that interim testing and year-end field work will require. Recognize that auditors need access to any and all paperwork and records that support any significant transaction. Have available a one-page document that explains the protocols for obtaining necessary payment printouts from the applicable state website.

[3] TAKE ADVANTAGE OF TECHNOLOGY

Gaining maximum leverage from investments in technology is a critical challenge for every sector of the economy today.

During an engagement I've often found that, for whatever reason, my client hasn't taken the time to fully understand the capabilities of current innovations in software and how to apply them to the job at hand.

For example, in the area of spreadsheet software, Microsoft Excel™ is unquestionably, the category leader. Therefore, proficiency with it is an indispensable skill for auditors, accountants, and financial managers.

So often, clients do not understand that their financial management information system offers many time-saving and analytical opportunities. We often can show our clients ways to save time by just using the capabilities of their existing software. And we all know that time saved eventually translates to money saved.

External auditors bring a fresh viewpoint and current expertise, so talking to and working with them on technological issues will have both an immediate and a long-term payback.

[4] INVEST IN TRAINING

Money spent on training is a unique form of business expense. It represents an investment by the organization in their employees as a means of securing improved workplace performance. For some time now return on investment (ROI) has been the Holy Grail of the training industry; the Catch-22 is that no individual, group, or organization has come up with a fail-safe metric to measure it for learning. While accountants and auditors take great pride in speaking the language of numbers and seek to quantify most things, they realize that dollars spent wisely on training will reduce the risk of fraud, lower operating costs, and increase the ability of an organization to perform its mission.

[5] STAY IN TOUCH — ONGOING TWO-WAY COMMUNICATION

One of the big variables in both government service and the accounting profession is people. Today it's a fact of business life that employees frequently change jobs or positions, so staff transitions occur all the time. Therefore relationships formed between auditors and municipal employees over several years are subject to natural career

progression and advancement. So if it's highly likely that the same players won't be on the field every year, it is extremely important to maintain lines of communication.

Moreover, while audit firms can reach out with telephone calls, e-mails, and printed materials, the municipality has to take some responsibility and be proactive. For example, if the client knows of a future, unusual, or infrequent transaction, such as the possible annexation of property with buildings, don't wait until after the transaction, because it may be too late to benefit from the counsel and expertise of your auditors.

Conversely, the auditors can facilitate discussion on actual or impending accounting rulings or pronouncements, what constitutes an appropriate response, what future implications might be, or whether it is beneficial to consider early adoption.

This kind of sharing of ideas and information can lead to the development of better standards, easier implementation of new standards, and no surprises at year-end. At Lindsey + Associates, we have distilled our experience to a handy spread-sheet check list. If you wish a copy, send an e-mail to info@acpafirm.com.



Lindsey + Associates

Jim Lindsey has been providing accounting, auditing, tax, and consulting services to clients for over 25 years. He graduated magna cum laude from the University of Maryland and earned an MBA from The Wharton School.



*One today is worth
two tomorrows.*

At Lindsey+Associates
we work for you today
and tomorrow.

Two decades of
accounting, auditing, and
financial expertise.

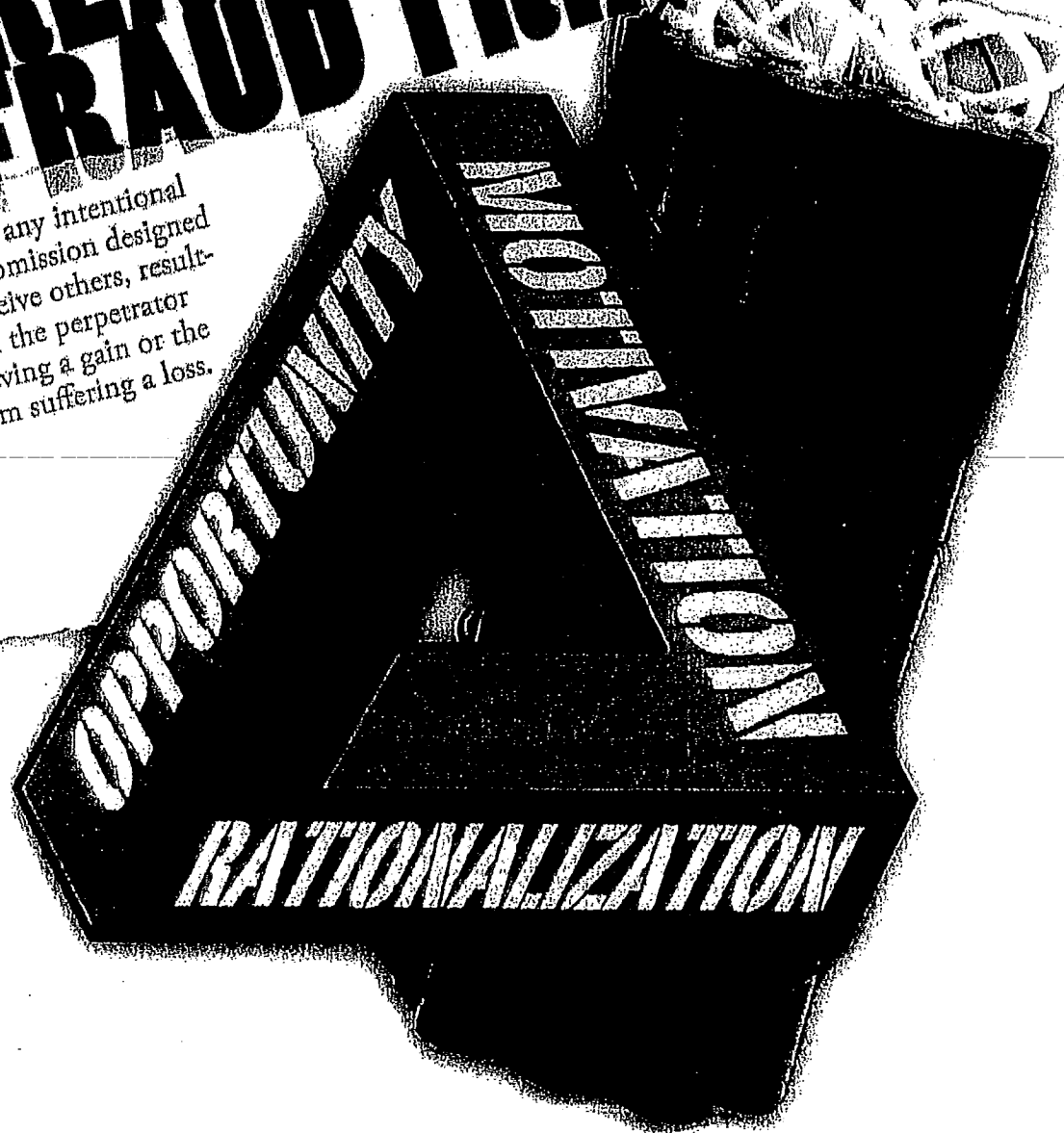
Lindsey + Associates

808 Baltimore Avenue
Suite 101
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410.825.1994
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info@acpafirm.com

BREAKING THE FRAUD TRIANGLE

fraud • any intentional
act or omission designed
to deceive others, result-
ing in the perpetrator
achieving a gain or the
victim suffering a loss.



Breaking the Fraud Triangle



By James A. Lindsey, Jr., CPA

Make no mistake about it, all businesses, organizations, and government agencies are subject to fraud risks!

The dictionary defines fraud as any intentional act or omission designed to deceive others, resulting in the perpetrator achieving a gain or the victim suffering a loss. Quoting a study by the Association of Certified Fraud Examiners, a recent article in *Business Week* noted that U.S. employers lost an estimated \$994 billion to fraud last year.

Who are these marauding fraudsters? First, most are in their 40s, with men outnumbering females two to one. Second, they have worked for more than five years at the company where they

did their pilfering. Finally, of the nearly one thousand fraud cases recently analyzed, more than half were discovered by accident.

Over half a century ago the noted criminologist Donald R. Cressey interviewed over 200 embezzlers who had stolen from their companies. From his research in occupational fraud Cressey devised the theory of the "fraud triangle." The three elements making up the fraud triangle are opportunity, motivation and rationalization.

The Catch-22 of Fraud Detection

Because of a need to control costs, every organization is constantly looking for ways to reduce headcount or com-

bine jobs. The result is that managers become responsible for a wider range of functions, which in turn gives them more access and control over related transactional areas.

This can pave the way for increased fraud because the opportunity to commit fraud grows as fewer employees have greater access to assets or information that permits the commission and concealment of fraudulent activities.

Don't Let Opportunity Knock

Opportunity is the element over which management has the most control, so don't let a fraud opportunity knock. Opportunities arise when internal controls are weak

or non-existent, or when an employee is trusted too much.

Some immediate steps to take include: [1] Incorporating background checks on all new accounting and financial hires into you policy and procedures manual. [2] When interviewing candidates, look for, and when possible hire, people with fraud training or experience. They can help close the door before cash and valuable assets walk away. [3] Communicate and enforce your ethics policy.

Additional steps would be to conduct surprise audits, insist on mandatory vacations, and when feasible rotate responsibilities between the various accounting and bookkeeping functions. Finally, restrict access to the systems, information, and assets that are necessary for employees to complete their jobs.

Motivation Isn't Always a Good Thing

Motivation is the second side of the fraud triangle. In this case motivation means a need felt by an individual to commit fraud.

The "need" could be a genuine financial need resulting from

high medical bills, debts or a perceived need such as a desire for material goods, but not the resources to obtain them. Motivators also fall into the category of non-financial, such as gambling addiction or substance abuse.

The best way to address the motivation for fraud issue is head-on with on-going training for all employees.

There is no Rational Rationalization

The final part of the fraud triangle is the conscious or unconscious ability of a perpetrator to rationalize his or her behavior and action. For those who are dishonest by nature, rationalization comes quite easily. "What's mine is mine, and what's yours is mine." Those with a higher sense of ethics must convince themselves that fraud is tolerable with "excuses" or "rationalizations" for their behavior.

Some common rationalizations include "I'm underpaid or didn't get a bonus." Or an embezzler may say they were only "borrowing" the money and they will replace it one day. Some fraudsters tell themselves that the company doesn't need the

money, won't miss the assets or insurance will cover the theft.

While an ethics policy is no substitute for hiring employees with strong moral codes, a properly communicated and enforced policy is a key step in fraud deterrence.

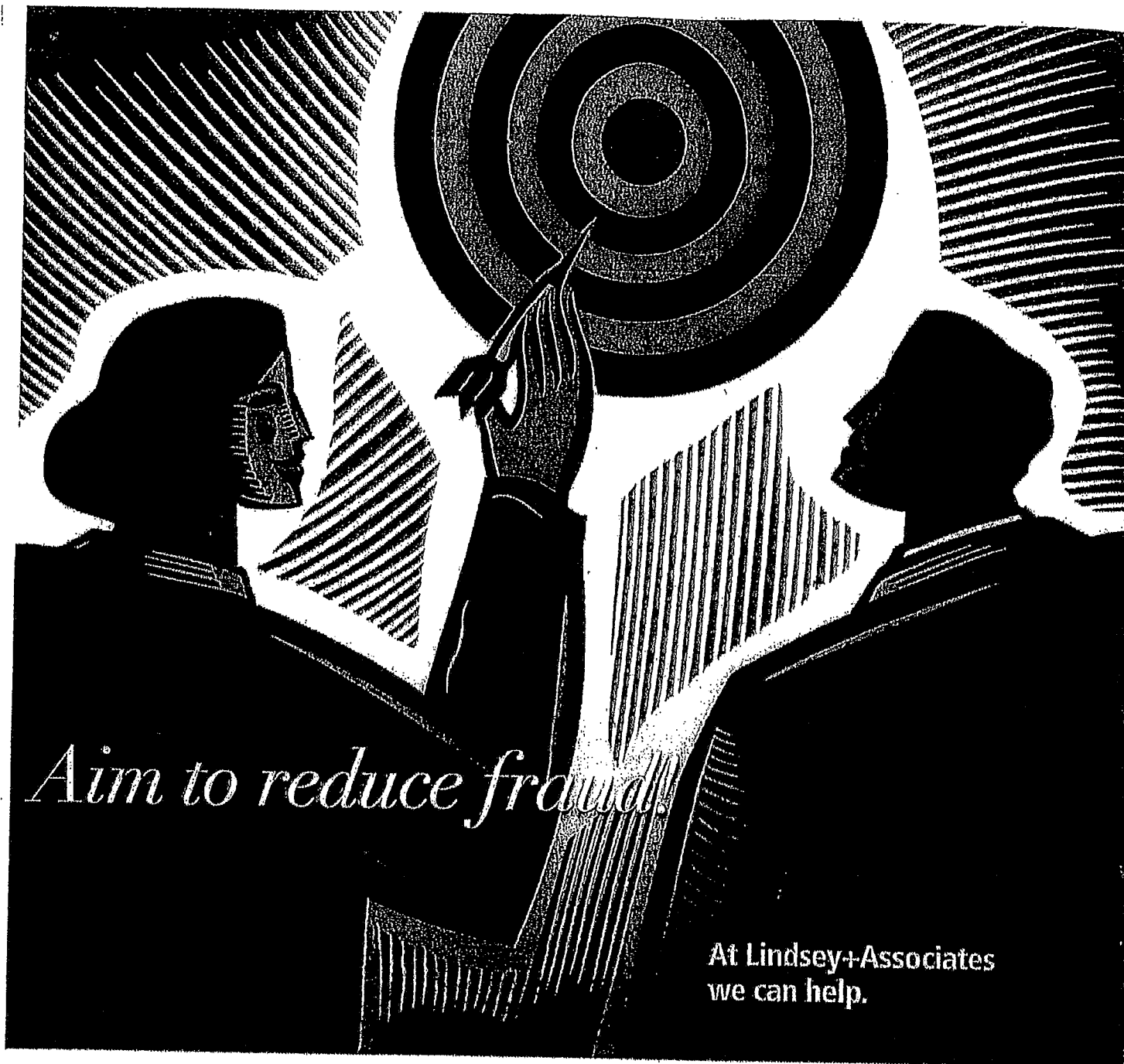
For the Long Haul...

The responsibility for accomplishing an organization's mission and objectives ultimately resides with its leadership. To reduce the risk of fraud in local government, it's critical that leaders focus on the individual components of the fraud triangle, build and constantly update effective safeguards and systems, and select internal staff and external auditors who are dedicated to breaking the fraud triangle.



Lindsey + Associates

Jim Lindsey graduated magna cum laude from the University of Maryland and earned an MBA from The Wharton School. He is a member of the Association of Certified Fraud Examiners (ACFE) and has conducted over 200 audits and engagements for Maryland governmental entities.



Aim to reduce fraud!

At Lindsey+Associates
we can help.

Two decades of
accounting, auditing, and
financial expertise.

Lindsey + Associates

606 Baltimore Avenue
Suite 101
Towson, MD 21204

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EXHIBIT 2

Lindsey + Associates

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410.825.1897 fax

www.aqpafrim.com

June 24, 2009

Mr. Geoffrey B. Biddle
Village Manager
Chevy Chase Village
5906 Connecticut Avenue
Chevy Chase, Maryland 20815

Dear Mr. Biddle

We are pleased to confirm our understanding of the services we are to provide for Chevy Chase Village (the "Village") for the year ending June 30, 2009. We will audit the financial statements of the governmental activities, the business-type activities (if any), each major fund, and the aggregate remaining fund information, which collectively comprise the entity's basic financial statements, of the Village as of and for the year ended June 30, 2009. The document we submit to you will include the following supplementary information required by generally accepted accounting principles that will be subjected to certain limited procedures, but will not be audited: (1) management's discussion and analysis, and (2) budget versus actual comparison schedule - general fund. Also, the document we submit to you will include the following additional supplemental information (not required by U. S. generally accepted accounting principles) that will be subjected to the auditing procedures applied in our audit of the financial statements upon which we will provide an opinion in relation to the basic financial statements: (1) schedules of expenditures - budget and actual. In addition, we will prepare the Uniform Financial Report (the "UFR") and review the UFR in accordance with page 2 of the UFR.

Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U. S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the basic financial statements taken as a whole. Our audit will be conducted in accordance with U. S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records and other procedures we consider necessary to enable us to express such opinions. If our opinions on the financial statements are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and compliance will include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the entity, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties. If during our audit we become aware that the Village is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with

U. S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representation contained therein. As part of the audit, we will prepare a draft of your financial statements and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities (if any), each major fund, and the aggregate remaining fund information of the Village and the respective changes in financial position and cash flows, where applicable, in conformity with U. S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. You are also responsible for informing us of your knowledge of any allegations of fraud or suspected fraud or illegal acts affecting the government received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws and regulations and for taking timely and appropriate steps to remedy any fraud, illegal acts, or violations of contracts or grant agreements, or abuse that we may report.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. The responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions.

Audit Procedures - General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting

on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute, assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements, or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors that come to our attention, and we will inform you of any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as an auditor is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, if any, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedures - Internal Control

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope that would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required by communicated under AICPA professional standards and *Government Auditing Standards*.

Audit Procedures - Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Village's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

Audit Administration, Fees, and Other

Jim Lindsey is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

We understand that we will prepare all cash or other confirmations and your employees will locate any invoices selected by us for testing and have available for us at the beginning of the fieldwork those client prepared documents that are requested. In addition, the prior year trial balance must agree with the prior year's audit.

We will provide copies of our reports to the Village; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Lindsey + Associates, LLC and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to regulators or the U. S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Lindsey + Associates, LLC personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by regulators or the U. S. Government Accountability Office. If we aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

We expect to begin our audit during July and to issue our report to the Village no later than October 15 and submit the Uniform Financial Report to the State of Maryland by October 31.

Our fee for these services will be \$ 10,010. Our invoices for these fees will be sent in accordance with Section 2 of the Professional Services contract and the Scope of Work (Exhibit 1).

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2006 peer review report accompanies this letter.

We appreciate the opportunity to be of service to the Village, and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

Lindsey + Associates, LLC

RESPONSE:

This letter correctly sets forth the understanding of the Chevy Chase Village, Maryland.

By: _____

Title: _____

Date: _____

Exhibit 1

FIRST AMENDMENT TO PROFESSIONAL SERVICES CONTRACT

THIS FIRST AMENDMENT TO THE PROFESSIONAL SERVICES CONTRACT (the "Amendment"), is made and entered into this 9th day of June 2010, by and between CHEVY CHASE VILLAGE, a municipal corporation organized and existing under the laws of the State of Maryland, hereinafter referred to as the "Village", and LINDSEY & ASSOCIATES, LLC., having an address at 606 Baltimore Avenue, Suite 101, Towson, Maryland 21204, hereinafter referred to as the "Contractor". The Village and the Contractor may sometimes hereinafter be referred to as a "Party" or collectively as the "Parties."

RECITALS

WHEREAS, the Village and the Contractor entered into a Contract dated June 30, 2009 (the "Contract") whereby the Contractor agreed to provide professional independent audit services to the Village for a period of one (1) year; and

WHEREAS, upon expiration of the Contract the Village has the option thereunder to extend the Contract for up to three (3) one-year periods; and

WHEREAS, the Village desires to exercise its option to engage the Contractor to provide the aforementioned services to the Village for an additional one-year period with work to commence in support of the Fiscal Year 2010 audit, and has informed the Contractor of its intent to exercise such option in accordance with the terms of the Contract; and

WHEREAS, the Parties intend to amend the contact information for the Village Manager under the Contract in accordance with Paragraph 28 marked as Attachment A herein; and

WHEREAS, the Parties intend to amend the schedule of performance as described on pages 1 and 14 of the Contractor's proposal marked as Exhibit 1 therein; and

WHEREAS, the Parties intend to amend the engagement team as described on page 5 of the Contractor's proposal marked as Exhibit 1 therein; and

WHEREAS, the Parties agree to amend the Contract and to continue the terms and conditions of the Contract, as amended hereby.

NOW, THEREFORE, for and in consideration of the mutual obligations herein contained, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereby covenant and agree as follows:

1. **Recitals.** The recitals set forth hereinabove are hereby incorporated into this Amendment the same as if fully set forth hereinbelow.
2. **Amendment to Notices.** Paragraph 28 of the Contract, entitled "Notices", is replaced in its entirety with the following:

NOTICES. Written notice shall be deemed to have been duly served if delivered in person to the individual or member of the firm or to any officer of the corporation for whom it was intended if delivered or sent by registered or certified mail to the last address known. All notices required or permitted under this Contract shall be in writing and shall be deemed delivered when delivered in person or deposited in the United States mail, postage prepaid to the following:

TO VILLAGE: Chevy Chase Village
Attn: Shana Davis-Cook, Village Manager
5906 Connecticut Avenue
Chevy Chase, Maryland 20815

TO CONTRACTOR: Lindsey & Associates, LLC
Attn: James A. Lindsey, Jr., Engagement Partner
606 Baltimore Avenue, Suite 101
Towson, MD 21204

3. **Amendment to the Engagement Timing.** Pages 1 and 14 of the Contractor's proposal, entitled "Engagement Timing", is replaced in its entirety with the following:

<u>Date</u>	<u>Description</u>
June 16 to June 19, 2010	Client to send in excel: a general ledger, trial balance, and financial statements for operations and speed cameras. Also copies of bank and investment accounts to prepare confirmations.
July 1 to July 2, 2010 – 9 AM	Interim testing and internal control interviews.
July 27 – July 29, 2010	Year end field work
August 28, 2010	Date client expects distribution of income tax.
September 14, 2010	Delivery of draft of financial report to client.
September 21, 2010	Meeting with audit committee to review draft of financial report.
October 12, 2010	Client requests copies of bound financial report.
October 31, 2010	Last date to have financial report to Legislative Department in Annapolis and UFR done and filed.

4. **Amendment to the Engagement Team.** Page 5 of the Contractor's proposal, entitled "Engagement Team", is replaced in its entirety with the following:

Jim Lindsey, CPA – Engagement Partner
Bob Diss, CP – Senior Manager
Bill Wilkerson, CPA – Senior Auditor
Nicole Tallon, – Staff II Auditor

5. **Conflict.** To the extent any terms and conditions of this Amendment conflict with the terms of the Contract, the terms of this Amendment shall prevail.

6. **Governing Law.** This Amendment is executed in the State of Maryland and shall be interpreted, construed, and governed according to the laws of the State of Maryland.

7. **Full Force & Effect.** Except as amended hereby, the Contract shall continue in full force and effect and is hereby ratified and affirmed in all respects. Each reference to "this Contract," "hereof," "hereunder," "herein" and "hereby" and each other similar reference contained in the Contract shall from and after the date hereof refer to the Contract as amended hereby.

8. **Counterparts.** This Amendment may be executed in any number of counterparts and/or by facsimile, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

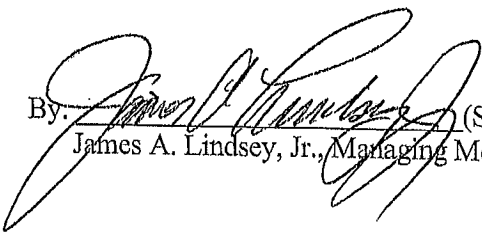
9. **Authorization.** The undersigned agent of the Contractor represents and warrants that he is duly authorized to execute this Amendment on behalf of the Contractor.

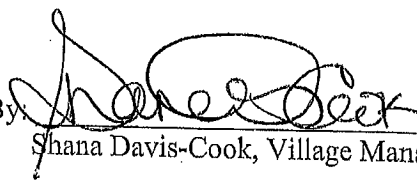
IN WITNESS WHEREOF, the Parties hereto have executed this Amendment as of the day and year first written above.

CONTRACTOR:


CHEVY CHASE VILLAGE:

LINDSEY & ASSOCIATES, LLC

By:  (SEAL)
James A. Lindsey, Jr., Managing Member

By:  (SEAL)
Shana Davis-Cook, Village Manager

Approved as to form and legality:


David Podolsky, Village Counsel

